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C O N F I D E N T I A L SECTION 01 OF 02 BOGOTA 14873

E.O. 12356: DECL  
TAGS: EPET, ECON, CO  
SUBJECT: MEETING WITH PRESIDENT OF COLOMBIAN NATIONAL  
OIL COMPANY

1. SUMMARY. ECON COUNSELOR AND ECONOFF MET OCTOBER 15 WITH FRANCISCO CHONA CONTRERAS, NEW PRESIDENT OF ECOPEPETROL, THE COLOMBIAN NATIONAL OIL COMPANY. CHONA SAID THAT GOC WANTS FOREIGN INVESTMENT IN THE OIL SECTOR, PARTICULARLY US INVESTMENT. HE NOTED COLOMBIA'S NEED TO FIND ADDITIONAL EXPLOITABLE CRUDE DEPOSITS IF THE COUNTRY IS TO REMAIN SELF SUFFICIENT OVER TIME. OIL DECREES 196 AND 128, PROMULGATED BY THE BETANCUR GOVERNMENT, WERE ILL ADVISED BUT THERE IS LITTLE THAT CAN BE DONE ABOUT THEM. GOC WILL TRY TO ADMINISTER DECREE 196 IN A MANNER ACCEPTABLE TO ALL PARTIES. CHONA CLAIMS THAT FOREIGN INVESTOR INTEREST IN THE COLOMBIAN PETROLEUM SECTOR REMAINS HIGH. ECOPEPETROL DEVELOPMENT PLANS, IN ADDITION TO EXPANDED EXPLORATION, INCLUDE NEW OIL AND GAS PIPELINES AND A NEW REFINERY. END SUMMARY.

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2. DURING A MEETING WITH ECON COUNSELOR AND ECONOFF, CHONA STRESSED THE ROLE THAT FOREIGN INVESTMENT MUST PLAY IN THE DEVELOPMENT OF THE COLOMBIAN PETROLEUM

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UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: OSCAR J. OLSON  
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SECTOR. HE NOTED SEVERAL TIMES THAT GOC WELCOMED FOREIGN INVESTMENT AND WITHIN THAT RUBRIC, US INVESTMENT WAS PARTICULARLY WELCOME. HE STATED BLUNTLY THAT ECOPETROL DID NOT HAVE THE RESOURCES IT NEEDED TO UNDERTAKE THE PROJECTS AND PROGRAMS HE WAS ABOUT TO OUTLINE.

6. ECOPETROL'S DEVELOPMENT PLANS INCLUDE A TRIPLING OF EXPLORATORY ACTIVITY, AUGMENTING EXISTING CRUDE PIPELINES AND CONSTRUCTING NEW PIPELINES, CONSTRUCTING A NATURAL GAS PIPELINE FROM TEXACO'S GUAJIRA GAS FIELDS TO BOGOTA TO MEET DOMESTIC NEEDS, CONSTRUCTION OF AN INTEGRATED REFINERY, AND FURTHER DEVELOPMENT OF THE COLOMBIAN PETRO-CHEMICAL INDUSTRY. CHONA NOTED THAT SOME CRUDE PIPELINE CONSTRUCTION HAD ALREADY BEGUN AND BIDS ON THE GAS PIPELINE WERE BEING ACCEPTED. ECOPETROL EXPECTS TO CONTROL, BUT NOT NECESSARILY OPERATE, ALL NEW PIPELINES.

5. CHONA SAID THAT IN 1985 ECOPETROL SIGNED 30 NEW EXPLORATION CONTRACTS WITH FOREIGN FIRMS AND EXPECTS TO SIGN BETWEEN 12 AND 15 IN 1986. ALTHOUGH THE VOLUME IS DOWN, HE SAID THAT COMPANIES STILL REALIZE THAT THERE IS OIL TO BE FOUND IN COLOMBIA AT REASONABLE DEPTHS AND IN SIZEABLE QUANTITIES. HE REMARKED THAT SHELL, OCCIDENTAL, TEXACO, AND EXXON WERE ALL SEEKING ADDITIONAL BLOCKS OF LAND TO EXPLORE.

7. CHONA SAID THE REFINERY CONSTRUCTION IDEA WAS NOT A NEW ONE AND THAT COLOMBIA WOULD NEED AN ADDITIONAL

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INTEGRATED REFINERY BY THE YEAR 2000. CHONA NOTED THAT THE REFINERY WOULD GIVE COLOMBIA GREATER CAPACITY AND PRODUCT MIX AND GREATER SECURITY IN THE EVENT OF GUERRILLA ATTACKS ON REFINERIES. HE EXPECTS THAT THE REFINERY WILL BE BUILT TO TRANSFORM CRUDES FROM THE LLANOS AND HUILA FIELDS (NOW ONLY BEGINNING TO BE DEVELOPED) AND PROVIDE PETROCHEMICAL INPUTS TO AGRICULTURE IN THOSE AREAS. THE COST OF THE REFINERY, ESTIMATED AT AROUND US 1 BILLION DOLLARS, WOULD BE SPREAD OVER 3 DEVELOPMENT PERIODS, EACH VALUED AT AROUND US 300 MILLION. THE INTEGRATED REFINERY WOULD BE COMPLETED BY THE YEAR 2000. ALTHOUGH NO DECISION HAS BEEN MADE ON THE REFINERY CONCEPT, CHONA STATED THAT

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BARCO IS SUPPORTIVE OF THE IDEA.

3. IN DISCUSSION OF OIL DECREES 128 (REGULATING OPERATION OF THE CANO-LIMON-COVENAS PIPELINE) AND 196 (DEALING WITH GOC RIGHT OF FIRST PURCHASE OF CRUDE BELONGING TO ASSOCIATION PARTNERS), CHONA SAID THERE WAS LITTLE POSSIBILITY OF CHANGE. HE NOTED THAT OCCIDENTAL, THE BUILDER OF THE PIPELINE, WAS COMING AROUND TO SEEING ECOPETROL OPERATION OF THE PIPELINE AS A PLUS, DUE LARGELY TO THE ONGOING GUERRILLA ATTACKS AGAINST THE LINE. THE TAX ON REMITTANCES THAT WAS INSTITUTED DURING EARLY 1986 (WHICH HAD BEEN SUSPENDED FOR OIL COMPANIES) WILL NOT BE REMOVED BECAUSE OF THE POLITICAL COST INVOLVED. CHONA DID NOT THINK THE LEGISLATURE COULD BE SWAYED TO CHANGE THE LEGISLATION THAT REINSTITUTED THE TAX.

4. OIL DECREE 196 WAS ANOTHER MATTER. HE SAID THAT 196 WAS DESIGNED TO ASSURE THAT NATIONAL NEEDS WOULD ALWAYS BE FILLED AND THAT THE COMPANIES UNDERSTOOD THIS POSITION. HE POINTED OUT THAT ECOPETROL WAS CURRENTLY

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WORKING ON THE IMPLEMENTING DIRECTIVE (REGLAMENTACION) OF THE DECREE. THE PHILOSOPHY GOVERNING THE IMPLEMENTATION IS THAT THE COMPANIES MUST EARN A PROFIT, BUT THAT AT THE SAME TIME DOMESTIC NEEDS HAVE TO BE MET.

8. CHONA HOPES THAT GUERRILLA ATTACKS ON THE CANO-LIMON-COVENAS PIPELINE WILL CEASE WHEN THEY REALIZE THAT THE ATTACKS ARE HURTING QUOTE COLOMBIA UNQUOTE AND NOT JUST THE MULTINATIONALS. HE SAID THAT DECREE 128 COULD TURN OUT TO BE VERY HELPFUL IN THIS REGARD BECAUSE IT WILL GIVE ECOPETROL CONTROL OF THE PIPELINE THIS DECEMBER. CHONA SAID THAT THE PIPELINE PROBLEMS WERE CAUSED BY MANNESMAN, THE WEST GERMAN PIPELINE CONSTRUCTION CONTRACTOR, WHICH HE SAID REGULARLY PAID OFF THE GUERRILLAS. THE GUERRILLAS CAME TO EXPECT THE SAME FROM ALL COMPANIES ASSOCIATED WITH THE PIPELINE. (COMMENT: THIS IS THE FIRST TIME A SENIOR GOC OFFICIAL  
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HAS CATEGORICALLY STATED THAT MANNESMAN WAS PAYING OFF THE GUERRILLAS. RUMORS TO THAT EFFECT HAVE ABOUNDED FOR SOME TIME.)

9. ON RELATIONS WITH OCCIDENTAL, CHONA SAID THAT WORKING WITH THAT COMPANY WAS EXTREMELY DIFFICULT. HE NOTED THAT OCCIDENTAL HAD A BAD REPUTATION WITH ECOPETROL, THE MINISTRY OF DEFENSE, AND THE MINISTRY OF MINES AND ENERGY. HE SAID THAT ALTHOUGH OCCIDENTAL HAD BEEN CLEANING UP ITS ACT OF LATE, IT STILL HAD A LONG WAY TO GO. CHONA SAID THAT THE CURRENT APPROVED PRODUCTION LEVEL WAS 150,000 BARRELS PER DAY, WITH A TEMP ARY INCREASE TO 170,000 BARRELS PER DAY TO MAKE UP FOR LOST PRODUCTION TIME DUE TO GUERRILLA ATTACKS AND DOWN TIME DUE TO A LANDSLIDE WHICH CLOSED THE PIPE FOR ROUGHLY 14 DAYS. ECOPETROL IS NOT PREPARED TO INCREASE PRODUCTION FURTHER. CHONA SAID THAT SHELL HAD WARNED TO DEVELOP THE FIELD SLOWLY (ECONOFF WILL FOLLOW UP WITH SHELL ON THIS) AND THAT ECOPETROL AGREED WITH THE STRATEGY. WITH THE CANO-LIMON FIELD REPRESENTING ROUGHLY 50 PERCENT OF RESERVES, CHONA BELIEVES IT MUST BE DEVELOPED CAREFULLY AND SLOWLY UNTIL FIELD CHARACTERISTICS ARE WELL UNDERSTOOD.

10. COMMENT: THE ECOPETROL DEVELOPMENT PLAN IS AN AMBITIOUS ONE FOR WHICH DOMESTIC RESOURCES ALONE WILL

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NOT SUFFICE. IT IS NOT CLEAR TO EMBASSY THAT OIL COMPANIES ARE LESS CONCERNED ABOUT DECREES 128 AND 196 THAN THEY WERE BEFORE OR THAT THE INVESTMENT ENVIRONMENT HERE HAS IMPROVED SIGNIFICANTLY. THE DROP FROM 30 TO 15 EXPLORATION CONTRACTS WOULD SEEM TO SHOW THAT COMPANIES CONTINUE TO BE WARY OF WORKING HERE BOTH BECAUSE OF GOVERNMENT POLICY AND LOW WORLD PRICE. THE COSTS OF

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DEVELOPING PIPELINE INFRASTRUCTURE AND REFINERY CAPACITY ARE HIGH AND FOREIGN INVESTMENT WILL BE CENTRAL. WILL COMPANIES BE WILLING TO INVEST THEIR MONEY AND LOSE CONTROL OF THE INFRASTRUCTURE THEY BUILD? EMBASSY THINKS NOT. WE DOUBT THAT OCCIDENTAL IS AS WILLING AS CHONA SAYS TO TURN OVER THE PIPELING TO ECOPETROL OPERATION. AS TO HUGE INCREASE IN ECOPETROL ACTIVITY, EMBASSY DOES NOT BELIEVE ECOPETROL HAS THE FINANCIAL RESOURCES FOR SUCH AN UNDERTAKING. ALTHOUGH SOME ADDITIONAL EXPLORATION MAY BE UNDERTAKEN BY NEW ENTRANTS TO THE COLOMBIAN OIL SECTOR, EMBASSY DOUBTS THAT A TRIPLING OF EXPLORATORY ACTIVITY TAKE PLACE EVEN IF ONE TAKES ECOPETROL AND PRIVATE EXPLORATION TOGETHER. DECREES 128 AND 196 HURT AND WILL CONTINUE TO HURT COLOMBIA'S ABILITY TO ATTRACT INVESTMENT.

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